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IN THE
Supreme Court of the United States
OCTOBER TERM, 1998

ROCKWELL INTERNATIONAL CORPORATION,
Petitioner,

v.

CELERITAS TECHNOLOGIES, LTD.,
Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

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REPLY BRIEF FOR PETITIONER

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17 pp

TABLE OF AUTHORITIES

CASES Page

Aronson v. Quick Point Pencil Co., 440 U.S. 257 (1979) 2, 3, 4
Bonito Boats, Inc. v. Thunder Craft Boats, Inc., 489 U.S. 141 (1989) ..... *passim*
City of Columbia v. Omni Outdoor Advertising, Inc., 499 U.S. 365 (1991) 3, 7
Compco Corp. v. Day-Brite Lighting, Inc., 376 U.S. 234 (1964) 5
Graham v. John Deere Co., 383 U.S. 1 (1966) 3
Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470 (1974) 3, 4
Kimberly-Clark Corp. v. Johnson & Johnson, 745 F.2d 1437 (Fed. Cir. 1984) 2
Lear, Inc. v. Adkins, 395 U.S. 653 (1969) 4
Pfaff v. Wells Electronics, Inc., 119 S. Ct. 304 (1998) 2
Sunkist Growers, Inc. v. Winckler & Smith Citrus Products Co., 370 U.S. 19 (1962) 7
United New York & New Jersey Sandy Hook Pilots Ass'n v. Halecki, 358 U.S. 613 (1959) 7
United States v. Glaxo Group Ltd., 410 U.S. 52 (1973) 3
Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225 (1964) 4

STATUTE

35 U.S.C. § 102 2

REPLY BRIEF FOR PETITIONER

Under the express terms of the Nondisclosure Agreement at issue here, Rockwell could not be held liable or assessed damages for its use of any technology obtained from Celcritas to the extent that the technology it used was in "the public domain." Pet. App. 66a. The award of $57 million for contract damages in this case, however, is corrupted by the near certainty that the jury imposed damages liability on Rockwell for using technology that was in "the public domain" as a matter of law—particularly, the public-domain "deemphasis" technology (in Celeritas' invalid patent) that has always been the core of this case. It could hardly be plainer that the trial that resulted in the $57 million award was radically different from the trial to which Rockwell was entitled, untainted by Celeritas's or the jury's reliance on the public-domain deemphasis technology. This simple and straightforward fact barred the Federal Circuit from affirming the jury award and required it instead to order a new trial to ensure that any imposition of contract liability and damages would rest *only* on nonpublic technology.

The Federal Circuit nevertheless affirmed the jury's $57 million verdict. In so doing, the Federal Circuit violated this Court's and other courts' repeated holdings that federal patent law defines the minimum scope of what is in "the public domain" and prevents state-law claims from impairing competitors' right to use technology that falls within that scope. The Federal Circuit's decision creates an easy avenue for evasion of the federal protection ensuring freedom to use technology in the public domain, a protection that is vital to the process of technological and economic development in a vigorously competitive marketplace. Celeritas advances only two arguments in opposition to certiorari, but neither argument justifies the Federal Circuit's affirmance of the jury award or weakens the need for this Court's review.[1]

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[1] Celeritas's opposition relies extensively on a "bad intent" portrayal of Rockwell that is irrelevant to the breach-of-contract

1. Celeritas does not seriously contest the basic principle that Rockwell may not be subjected to liability and damages for its use of technology that is in the public domain under federal patent law. *See* Br. in Opp. 17-20.[2] Contrary to Celeritas' brief, however, it is clear that the Federal Circuit's affirmance of the jury award did just that in at least two ways. Each is sufficient on its own to have required the reversal of the jury verdict and the grant of a new trial.

The starkest proof that the jury's contract award almost certainly sanctioned Rockwell for use of "public domain" technology is the undisputed fact that the jury found Celeritas's patent for deemphasis technology to be valid and awarded the identical $57 million in damages for patent infringement. There is now a final determination, however, that the patent was invalid under 35 U.S.C. § 102, because the technology had previously been disclosed in printed publications. That determination means that the technology was already in the "public domain." *See, e.g., Pfaff v. Wells Electronics, Inc.*, 119 S. Ct. 304, 310 (1998) (Section 102 "exclud[es] ideas that are in the public domain"; "[t]he patent laws . . . protect the public's right to retain knowledge already in the public domain"), *Kimberly-Clark Corp. v. Johnson & Johnson*, 745 F.2d

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basis on which liability was imposed and upheld, as the court of appeals' opinion shows. Rockwell's intent furnishes no basis for defending either an erroneous finding that public technology was nonpublic or an award of damages for using public technology. Celeritas's negative portrayal, even taken at face value, only diverts attention from a straightforward analysis of the legal issues. This Court has warned against such substitution of emotion for reason in this very setting. *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 164 (1989).

[2] Although Celeritas may be trying to suggest otherwise (Br. in Opp. 18, 19 n.16), the federal patent-law protection for public-domain technology cannot be weakened or waived by a contract, like the Nondisclosure Agreement, that expressly preserves the right to use technology under the very "public domain" standard of federal patent law. *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257 (1979), involving a clear waiver of rights to use certain public-domain material, is thus wholly inapposite.

1437, 1453 (Fed. Cir. 1984) (describing "basic principle" of Sections 102 and 103 "that no patent should be granted which withdraws from the public domain technology already available to the public"; "[t]hat is the real meaning of 'prior art' in legal theory"); *cf. Graham v. John Deere Co.*, 383 U.S. 1, 6 (1996) (Under the Constitution, "Congress may not authorize the issuance of patents whose effects are to remove existent knowledge from the public domain, or to restrict free access to materials already available."), quoted in *Bonito Boats*, 489 U.S. at 146.[3]

The jury expressly found otherwise—a now-undisputed error of law—and almost surely relied on the patented technology in finding breach of the Agreement: it rendered identical patent and contract awards. Indeed, with the jury having (incorrectly) found the deemphasis technology to be outside the public domain when holding the patent valid, it would have been surprising if the jury did *not* rely on that same finding for its contract verdict. It is, at a minimum, impossible to say that the $57 million contract award is independent of an improper reliance on public-domain technology; to the contrary, such independence was almost certainly lacking here. This itself is enough to compel setting aside of the jury verdict. *See, e.g., City of Columbia v. Omni Outdoor Advertising, Inc.*, 499 U.S. 365, 384 (1991) (a jury verdict cannot stand where it was permitted to rest on a legally erroneous basis, even if there was legally sufficient permissible evidence).

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[3] This Court has repeatedly used the "public domain" standard to describe disqualification from patentability based on prior art. *See Bonito Boats*, 489 U.S. at 148 (Section 102 bars patent for "knowledge that is already available to the public"; repeatedly using "public domain," *e.g., id.* at 150, 151, 153); *Aronson*, 440 U.S. at 262 ("[T]he stringent requirements for patent protection seek to ensure that ideas in the public domain remain there for the public."), quoted with approval in *Bonito Boats*, 489 U.S. at 150; *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 488-89 (1974) ("an invalid patent" threatens "the free use of ideas already in the public domain"); *United States v. Glaxo Group Ltd.*, 410 U.S. 52, 55-56 nn.4, 6 (1973) (reporting Government equating failure under Section 102 with being in "public domain").

Celeritas's public disclosure of the technology when its patent issued in January 1995 supplies a second, closely related reason why it is impossible to say that the jury award did not make Rockwell pay for use of public-domain technology. Even disregarding the prior art that invalidated the patent, it is clear that issuance of the patent placed the disclosed technology in the public domain: such disclosure, indeed, was the *quid pro quo* for the issuance of the patent providing exclusivity. *See Bonito Boats*, 489 U.S. at 150-51; *Kewanee Oil*, 416 U.S. at 489. And it is equally clear that once the technology entered the public domain, it was subject *only* to patent protection (where, as here, there was no waiver of any rights in public-domain technology by contract, *see* Pet. 14-15 & n.12). *See Bonito Boats*, 489 U.S. at 149 ("Once an inventor has decided to lift the veil of secrecy from his work, he must choose the protection of a federal patent or the dedication of his idea to the public at large."); *id.* at 156 ("ideas once placed before the public without the protection of a *valid* patent are subject to appropriation without significant restraint" (emphasis added)).[4] Celeri-

[4] *See Bonito Boats*, 489 U.S. at 151 (Because "the ultimate goal of the patent system is to bring new designs and technologies into the public domain through disclosure[,] State law protection for techniques and designs whose disclosure has already been induced by market rewards may conflict with the very purpose of the patent laws by decreasing the range of ideas available as the building blocks of further innovation"; for that reason, "[t]o a limited extent, the federal patent laws must determine not only what is protected, but also what is free for all to use."); *Aronson*, 440 U.S. at 264 ("a state may not forbid the copying of an idea in the public domain which does not meet the requirements for federal patent protection"; *Kewanee Oil*, 416 U.S. at 481 (it is a "policy of the patent law" that what "is in the public domain cannot be removed therefrom by action of the States"); *Lear, Inc. v. Adkins*, 395 U.S. 653, 668, 674 (1969) ("federal law requires[] that all ideas in general circulation be dedicated to the common good unless they are protected by a valid patent"; "strong federal policy favoring the full and free use of ideas in the public domain"); *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 231 (1964) ("An unpatentable article, like an article on which the patent has expired, is in the public domain and may be made and sold by whoever

tas, indeed, does not seem to dispute these well-settled principles.

Yet the jury in this case based its award on projected use of the "deemphasis" technology by Rockwell for five years past the public disclosure in the patent. It was not required either to limit its award to use of that technology within a "head start" period (following the patent disclosure) or to specify separately what amounts, if any, were attributable to any technology that was not disclosed in the patent. At least in this additional way, the jury award cannot reasonably be judged free of impermissible imposition of liability and damages for use of public-domain technology. The Federal Circuit nevertheless allowed the award to stand rather than grant a new trial.[5]

2. Celeritas has advanced only one substantive defense of the Federal Circuit's ruling. It suggests that, according to (a) the jury and (b) the Federal Circuit, no public-domain technology in fact underlies the full $57 million award against Rockwell. This assertion—set forth repeatedly in Celeritas's brief (Br. in Opp. 12-13 (Argument I), 18-20 (Argument III)—is the sole basis on which Celeritas argues that what the Federal Circuit did in this case comports with the legal principles that Celeritas apparently accepts.[6]

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chooses to do so."), quoted with approval in *Bonito Boats*, 489 U.S. at 153; *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234, 237-38 (1964) ("Day-Brite's fixture has been held not to be entitled to a design or mechanical patent. Under the federal patent laws it is, therefore, in the public domain and can be copied in every detail by whoever pleases.").

[5] This case currently involves only liability for breach of contract, not the statutory tort of trade-secret misappropriation. As the Federal Circuit seemed to recognize, however, governing California law limits damages for the latter to a "head start" period. *See* Pet. App. 10a. Any trade-secret liability would also be affected by the invalidity of the Celeritas patent.

[6] Celeritas refers in a footnote to the hypothetical lump-sum payment adopted by the jury as a remedy, but, as it seems to acknowledge in the last sentence of the footnote, this remedy's validity depends on the sole substantive contention Celeritas makes in text

This suggestion, however, flagrantly sidesteps the issue presented and mischaracterizes the Federal Circuit's holding. Celeritas cannot rely on the jury's finding to establish the critically distinguishing fact, because that is precisely what was tainted by the evident reliance on public-domain technology. As for the Federal Circuit, it did not purport to find, and could not possibly have found, that the whole basis for the jury award was nonpublic technology. Nor could it have made findings of fact on its own. All that the Federal Circuit did was to affirm based on "substantial evidence," concluding under that extremely deferential standard that there was evidence that *some* of the technology used was not disclosed in the patent. Br. in Opp. 12-13.[7] Moreover, the court of appeals did not even discuss whether, let alone make a finding that, anything like $57 million in damages can reasonably be attributed to Rockwell's use of any nonpublic technology, once the public-domain deemphasis technology is factored out. The evidence could not possibly support such a finding.

Like Celeritas, then, the Federal Circuit focused only on what the jury *could* conceivably have found on the evidence (restricting even that focus to the question of liability, excluding the damages issue). What it entirely failed to do was *also* to ensure that the jury's actual findings rested on an error-free basis. Under black-letter law, those are two quite separate inquiries: even if there were legally sufficient evidence so as to preclude entry of judg-

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—that damages were supposedly not imposed for use of technology in the public domain. Br. in Opp. 19 n.16.

[7] Although Celeritas excerpts a sentence from the court of appeals opinion to make it appear otherwise (Br. in Opp. 12, quoting from Pet. App. 7a), the court of appeals did not find that "the information" given by Rockwell to Celeritas was proprietary or that the jury rested its finding of nonpublic technology entirely or even predominantly on permissible bases. All that the court of appeals held, or could hold under the "substantial evidence" standard, was that there was *some* (legally sufficient) evidence of nonpublic technology covered by the Agreement (which Rockwell disputes). Pet. App. 8a-9a.

ment for Rockwell as a matter of law, the jury's $57 million award could not properly be affirmed as long as it was tainted by at least the substantial possibility of legal error. *See, e.g., City of Columbia*, 499 U.S. at 384; *Sunkist Growers, Inc. v. Winckler & Smith Citrus Products Co.*, 370 U.S. 19, 29-30 (1962); *United New York & New Jersey Sandy Hook Pilots Ass'n v. Halecki*, 358 U.S. 613, 618 (1959). Celeritas cannot defend the Federal Circuit decision by ignoring this essential inquiry—whose absence here, as noted above, was unquestionably prejudicial.

The issue before this Court, therefore, is straightforward. Where the jury did not separately indicate how much it relied on public-domain technology and how much on any nonpublic technology, could the court of appeals properly uphold the undifferentiated $57 million award, which certainly rests to a large degree on public-domain technology? Celeritas's principal attempt to evade the issue is inadequate. The Petition's showing of a conflict with this Court's and other courts' decisions stands unanswered.

3. Celeritas's only other response to the Petition attempts to avoid the question presented in another insufficient way. Celeritas argues that Rockwell did not raise in the court of appeals the question presented in the Petition. Br. in Opp. 14-16. Celeritas's argument should be rejected. It is sufficient that Rockwell adequately presented its federal issue, in addition to its state-law issues, in its opening brief to the court of appeals (and then again in its reply brief).[8]

At the only place in its brief in opposition that purports to describe Rockwell's opening brief, Celeritas gives a critically incomplete description. Br. in Opp. 8. Celeritas recounts several passages of Rockwell's opening brief that make state-law arguments and address claims in the case

[8] Notwithstanding Celeritas's emphasis of the point, it is irrelevant that Rockwell chose to devote its scarce pages in its petition for rehearing to seeking relief on other grounds.

other than the contract issue (as if Rockwell somehow were precluded from making multiple independent contentions or addressing all of the issues). Celeritas also faults Rockwell for not citing cases (even for legal propositions that were not in dispute). What Celeritas omits, however, are references to the very portions of the brief that raise the present issue.

In fact, Rockwell specifically argued in its opening brief that the jury's contract award, for alleged use of technology not in "the public domain," had to be set aside precisely because it relied on technology that prior art had already placed in the public domain (so as to invalidate Celeritas's patent) and that was thereafter again placed in the public domain by the issuance of the patent itself.[9]

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[9] Rockwell's first "issue" was whether it could be held liable for breach of the Nondisclosure Agreement "where (a) the Agreement expressly provided that Rockwell had no obligation to maintain the confidentiality of information in the public domain and (b) a commercially available AT&T modem and the anticipatory prior art to [Celeritas's patent] had already made public the technology which Rockwell allegedly used to design its products." Rockwell Br. 1. The second issue presented sought to set aside the damages award for breach of the Agreement because Rockwell made only a few sales "before Celeritas made its own technology public through the issuance of [its] patent (thereby ending any liability against Rockwell under the express terms of the Agreement)." *Id.* at 2.

In the body of the brief, Rockwell devoted a subsection to arguing that its "public domain" contract obligation came to an end when Celeritas's patent issued. *Id.* at 22 (Argument II.A.2). The next subsection argued that the prior art that invalidated Celeritas's patent had already placed the patented technology "in the public domain" and thus took it outside the scope of the Agreement. *Id.* at 22-23 (Argument II.B). And, as one of several independent reasons for a new trial on contract damages, Rockwell again argued that any liability must end, under the Nondisclosure Agreement's "public domain" language, when the patent issued in January 1995. *Id.* at 26-27. Echoing the *Bonito Boats* language quoted above, Rockwell contended that issuance of the patent meant that "Celeritas affirmatively chose to forego its contractual protection in favor of patent protection in January 1995." *Id.* at 27; *see id.* at 26 (respecting Rockwell's use of the technology disclosed in the patent after January 1995, "Celeritas' remedy for such use (if any)

The effect of federal patents and the inherent minimum content of what is in "the public domain" are unquestionably matters of federal law, defined (as even Celeritas seems to acknowledge (Br. in Opp. 17-18)) by the well-known body of law cited above. *See* pages 3-4 & nn. 3, 4. The issue raised in this Court was thus properly presented to the court of appeals.

4. Celeritas refuses to come to grips with the maneuver by which the Federal Circuit evaded enforcement of the *Bonito Boats* public-domain principle, to the enormous and unwarranted benefit of Celeritas. The Federal Circuit wholly compartmentalized the liability and damages issues —limiting its review of liability to finding *some* evidence of *some* non-public technology, then refusing to ensure that the full damages were properly attributed only to that technology. That divide-and-conquer approach allowed what may be only a tiny basis for liability to sustain a massive damages award, most or all of which could well have been imposed by the jury for use of federally protected technology.

Such an approach squarely conflicts with the insistence by other circuits that even when a voluntary contract is present, freedom to use public-domain technology must be rigorously protected by requiring clear separation of

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would depend upon federal patent law, not California contract law"). There were *additional* arguments relying on California law.

Although it is not necessary to the present Petition, we note that Rockwell also contended that AT&T's sale of modems incorporating deemphasis technology also placed the technology at issue in the "public domain" under the Agreement. *Id.* at 19-22. In its summary of argument, Rockwell made one reference to "California law" in describing this argument. *Id.* at 13.

Celeritas, in its brief, directly responded to the patent arguments. It contended, in separate subsection headings as part of the section defending breach-of-contract liability, that "issuance of [its] patent did not extinguish Rockwell's liability" (Celeritas Br. 21-22) and that its "technology was not in the prior art" (*id.* at 23-24). In defending breach-of-contract damages, it again responded that issuance of its patent did not require limitation of the damages. *Id.* at 39-40.

any payment for nonpublic technology. *See* Pet. 16-18. The Federal Circuit's approach, moreover, furnishes a ready means for evasion of the federal protection that this Court has repeatedly affirmed. It provides a roadmap for the imposition of large damages attributed to use of public-domain technology. The result, if the decision stands, would be to impair the technological and competitive processes, including the process of licensing negotiations, that are fostered by that protection. The Federal Circuit's decision should be reviewed and reversed to preserve this important principle.

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted.

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